



# City of Margate

5790 Margate Boulevard  
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## Meeting Minutes

### Employee Benefits Trust Fund

*Chair, James Wilbur*  
*Vice Chair, Joanne Simone*  
*Secretary, Jackie Chin-Kidd*  
*Trustee, Adam Sitman*  
*Trustee, Laura Sudman*  
*Trustee, Efrain Suarez*  
*Trustee, Mark E. Weinrub*

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Thursday, June 16, 2016

2:30 PM

Commission Chambers

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#### CALL TO ORDER

**Present:** 6 - Chair James Wilbur, Vice Chair Joanne Simone, Secretary Jackie Chin-Kidd, Trustee Efrain Suarez, Trustee Laura Sudman and Trustee Mark Weinrub  
**Absent:** 1 - Trustee Adam Sitman

CHAD LITTLE, FREIMAN LITTLE ACTUARIES, LLC, ATTORNEY MARK FLOYD, MIERZWA & FLOYD, PA, AND MIKE NICKLER, MORGAN STANLEY, WERE PRESENT.

#### 1) PUBLIC DISCUSSION

*There was no Public Discussion.*

#### 2) MINUTES

##### A. [ID 2016-377](#) MOTION APPROVING MINUTES DATED JANUARY 21, 2016

A motion was made by Trustee Weinrub, seconded by Vice Chair Simone, that this Motion be approved. The motion carried by the following vote:

**Yes:** 6 - Chair Wilbur, Vice Chair Simone, Secretary Chin-Kidd, Trustee Suarez, Trustee Sudman and Trustee Weinrub

**Absent:** 1 - Trustee Sitman

#### 3) ELECTION OF OFFICERS

##### A. [ID 2016-380](#) MOTION - ELECTION OF CHAIR

A motion was made by Vice Chair Simone, seconded by Trustee Sudman, to nominate Jim Wilbur as Chair. The motion carried by the following vote:

**Yes:** 6 - Chair Wilbur, Vice Chair Simone, Secretary Chin-Kidd, Trustee Suarez, Trustee Sudman and Trustee Weinrub

**Absent:** 1 - Trustee Sitman

**B. [ID 2016-381](#) MOTION - ELECTION OF VICE CHAIR**

**A motion was made by Secretary Chin-Kidd, seconded by Trustee Sudman, to nominate Vice Mayor Simone as Vice Chair. The motion carried by the following vote:**

**Yes:** 6 - Chair Wilbur, Vice Chair Simone, Secretary Chin-Kidd, Trustee Suarez, Trustee Sudman and Trustee Weinrub

**Absent:** 1 - Trustee Sitman

**C. [ID 2016-382](#) MOTION - ELECTION OF SECRETARY**

**A motion was made by Trustee Weinrub, seconded by Vice Chair Simone, to nominate Jackie Chin-Kidd as Secretary. The motion carried by the following vote:**

**Yes:** 6 - Chair Wilbur, Vice Chair Simone, Secretary Chin-Kidd, Trustee Suarez, Trustee Sudman and Trustee Weinrub

**Absent:** 1 - Trustee Sitman

**7) OTHER BUSINESS**

*ITEM 7A WAS HEARD PRIOR TO ITEM 4.*

**A. [ID 2016-379](#) DISCUSSION AND POSSIBLE ACTION - ACTUARY REPORT - CHAD LITTLE, FREIMAN LITTLE ACTUARIES, LLC**

*CHAIR WILBUR recognized City Manager Douglas E. Smith and Finance Director Mary Beazley who were present. He also introduced Chad Little, Freiman Little Actuaries, LLC, who gave his presentation.*

*CHAD LITTLE, Freiman Little Actuaries, LLC, referred to Page 1, Board Summary, and explained that it was 8 years since the last Actuarial Report. He said that the Plan had a defined benefit with the amount pre-stated of what would be paid annually at the beginning of the year. He stated that once that amount was determined, the goal was to build up enough money throughout the employee's career so that once retirement was reached the Plan would be able to pay out for the rest of the employee's life. He explained that the Actuary's job was to help the Trustees understand how much needed to be put in to get to the point where there was enough money to pay for everybody's benefit. He noted that actuarial work was self-correcting and would adjust to good and bad things happening by driving funds up and down. He said that as an Actuary, nobody knew what the Plan actually costs, and it would not be known until the last person died; therefore, a mathematical model was used for calculations. He stated that the Actuarial model used a set of assumptions and did not predict the future. He explained that it assumed that under specific conditions what path would be taken. He noted that some adjustments had been made in the methodology and an adjustment was made to one of the actual assumptions put in place. He reviewed the Board Summary showing projections from 2007, and noted that the expected contribution was more than the required contribution. He said that the Plan had since closed with no new entrants; therefore, there were a limited number of people available still in the Plan, which reduced the required contribution substantially. He stated that the minimum contribution was the*

least amount that needed to go into the Plan, which was \$72,377; however, more could be contributed. He further explained that under the Funded Status, was calculated over the remaining working lifetimes of the active employees, which was calculated to allow for the right amount of money for when the last person retired. He noted that there would be continued adjustments as well. He stated that the funded percentage was previously 47 percent; however, the new method did not provide an approved liability so it went from 42 percent to 92 percent funded.

CITY ATTORNEY DOUGLAS R. GONZALES arrived at 2:41 PM.

MR. LITTLE showed Key Assumptions, and noted that the mortality scale had been changed to a more conservative type but was similar to what the Florida Retirement System (FRS) used. He explained that there were new recording requirements for pension Plans; however, this Plan did not need to be changed, because the Plan was closed. He referred to Page 2, Participant Data, and noted that there was a large drop in the number of active employees under assets, which was anticipated due to retirees leaving and closing the Plan; therefore, the return was reduced to 7 percent from 15.4 percent. He referred to Page 4, Investment Allocations, and explained that in 2007, the Plan had 100 percent in equities, and in 2015, it was close to the same but with more diversity. He stated that his study showed no need to change the rate of return, but because the Plan was winding down, an allocation would be different with the Plan because it was closing. He noted that the 7 percent assumed rate of return existed now; however, he felt that it might have to be worked on with the investment monitor to dial back the allocation. He clarified that if dialing back the allocation, the assumption would be to make less in the market. He stated that if the funds were not made in the market, it would have to be put in with cash. He explained that as the rate of return reduced, there would be additional funding requirements needed because the fund would make less in the market. He reiterated that the lower assumed rate of return caused the contributions to be higher. Mr. Little explained how the funding was determined and how the aggregate method worked by referring to Page 11. He noted that under Retired Members, there were people that were not active but had a future retirement date who were probably in the Deferred Retirement Option Plan (DROP) or were terminated and going to draw from the Plan at some point. He stated that a more conservative approach was taken and would pay them as soon as they were eligible. He noted that the active and retirees together provided a total liability of the Plan in the amount of 4.5 million assets, which compared to May 31, 2015, was 4.1 million. He explained that there was no reason to do market smoothing, which was planned in 2007, because it was just straight market at this point. He stated that the amount needed for present value was approximately \$377,000. He said that the present value of the future working lifetimes of all the active employees was the 1,476, which included 241 active employees, with those that could walk out now already excluded. He stated that the minimum required contribution was \$61,000, with administrative expenses at \$8,372 and interest of \$2,448, totaling \$72,377. He said that the contributions in the prior fiscal year were \$325,000, and he added that it was up to the Board of Trustees to determine how they wanted to handle the Plan going forward.

MS. CHIN-KIDD clarified that the \$72,377 was based on the return of 7 percent.

MR. LITTLE agreed and said that there was room to lower the assumed rate of return. He noted that he could provide an idea of the payment stream for the people in the Plan now.

ATTORNEY MARK FLOYD, Mierzwa & Floyd, PA, said that the funded ratio was a result of putting in extra money every year since 2007.

MR. LITTLE agreed that it would be a combination of excess funding, excess return and

*closing the Plan.*

*ATTORNEY FLOYD questioned whether Mike Nickler, Morgan Stanley, had the annualized return since inception.*

*MIKE NICKLER, Morgan Stanley, said that since inception, it was about 4.6, but for the last three years it was over 7 percent. He noted that there were a lot of bad years since inception.*

*MR. LITTLE agreed that there were massive down turn markets in 2008 and 2009.*

*ATTORNEY FLOYD asked whether the Plan should remain on the conservative side because of being closed, and he questioned whether 7 percent fell under conservative compared to other Plans Mr. Little provided service for.*

*MR. LITTLE agreed that the Plan should remain conservative, and he felt that for an open plan, the 7 percent was reasonable; however, he did not provide service for other closed Plans.*

*MR. NICKLER said that over the last 15 years, diversifying did not help the last three years. He explained that the SNP 500 only returned 5 percent a year over the last 15 years; therefore, he did not know how a diversified Plan or balanced portfolio could anticipate a 7 percent return.*

*MR. LITTLE agreed providing the long term economic assumptions were based on 2000 to 2009 and then 5 years since then; however, he believed if changing allocations, the return should get below 7 percent. He also noted that if the Plan sponsor who wrote the check was willing to accept the volatility of staying at a higher allocation while the Plan was winding down, some longer term anticipated returns could still be obtained. He stated that the Plan should start drawing down and more should be deferred toward investment professional on long term expectations of each of the various asset classes.*

*MR. NICKLER agreed, but felt that the 7 percent might be the new normal and he wanted to stay on the conservative side.*

*ATTORNEY FLOYD asked what number Mr. Nickler was comfortable with long term.*

*MR. NICKLER said that 7 percent was okay over the next 15 to 20 years; however, over the next 3 to 5 years, he felt 7 percent was reasonable over the long term.*

*MS. CHIN-KIDD questioned the amount of active members.*

*MR. LITTLE clarified that Page 12 showed 271 active members with 241 members that were not assumed to leave the Plan in the first year; therefore, only the 241 members were used when calculating average working lifetime.*

*MS. CHIN-KIDD asked whether the difference was included in the retired member calculation.*

*MR. LITTLE said that they were included in the active liability.*

*VICE CHAIR SIMONE asked how much the City put into the Plan and why the Plan was closed.*

CHAIR WILBUR said that the City provided 1 percent of payroll, which was \$325,000. He explained that City Manager Frank Porcella negotiated with the unions in 2010 to not offer the program any longer. He clarified that anyone hired after October 1, 2010, would no longer be provided the Plan. He noted that employees must have 10 years to be vested and must follow the FRS guidelines for retirement years, as well as drawing a FRS benefit.

MR. NICKLER asked why the Plan was closed, and CHAIR WILBUR said that was between the union and the City.

MR. WEINRUB noted that the Plan was closed when the City was having a difficult time maintaining the Budget. He added that Longevity was also discontinued at that time. He wanted to see the Commission reopen the Fund to benefit those giving years of service to the City.

CHAIR WILBUR reiterated that the Plan closing had to do with the unions and the City.

**A motion was made by Trustee Sudman, seconded by Trustee Weinrub, to approve the Actuarial Study.**

CITY MANAGER DOUGLAS E. SMITH encouraged the Trustees to look at what the appropriate level of funding should be, based on the new study. He noted that after putting in \$325,000, the study was now indicating that it could be \$72,377; therefore, he suggested lowering the number closer to what the required contribution was. He stated that if it was later determined that not enough money was going to the Plan, it could be readjusted.

ATTORNEY FLOYD noted that the Trustees did not set the contribution number, and that defined benefits were based on contribution by resolution of the Commission.

CITY MANAGER SMITH asked whether that could be recommended by the Trustees.

ATTORNEY FLOYD said that it would have to be bargained. He stated that he would look into the contract to see if it provided for the 1 percent.

FINANCE DIRECTOR MARY BEAZLEY questioned whether the contributions could be changed only to include active employees instead of 1 percent of the total payroll when new employees were not receiving the benefit.

ATTORNEY FLOYD explained that the contributions were fixed and was not variable; therefore, it was out of the Boards hands.

MR. LITTLE asked whether Mr. Nickler was told how much he would receive and he would then plan benefits around that contribution; therefore, the negotiation was about the contribution amount and not the benefit.

CHAIR WILBUR agreed that receiving 1 percent for those who were not in the Plan was not correct, and that it should only be for those who were eligible for the benefit. He asked what it would take to refigure the numbers at 1 percent for participants.

MR. LITTLE said that at least approximately \$72,377 needed to put in, and that going forward, if getting less than that something needed to be adjusted, such as reducing the benefit.

ATTORNEY FLOYD stated that \$72,377 was the minimum requirement according to Mr. Little, which he felt was like making the minimum payment on a credit card.

MR. LITTLE suggested that more frequent evaluations be done, and that it should be done every 3 years. He felt that if funding at a level closer to the minimum required amount, more frequent evaluations were needed.

ATTORNEY FLOYD said that the Plan gained 50 percent from 42 to 92 funded due to the excess contribution made through the years. He suggested reducing the contribution to an amount above \$72, 377, such as approximately \$100,000, to avoid volatility and therefore eliminating being subject to the market variations.

MS. CHIN-KIDD asked whether the \$72,377 was the amount that needed to be contributed every year assuming a minimum of 7 percent return, if everything else remained the same.

MR. LITTLE said that should be the contribution for the coming year beginning June 1, 2016, which should be looked at every year.

ATTORNEY FLOYD noted that it was amortized and would go down over time.

MR. LITTLE referred to Page 1, Board Summary, and showed the difference between the total liability of the Plan and what was in the bank, which was \$377,002. He explained that the \$72,377 contribution was the 300,000 spread out over the remaining working lifetimes of the participants for the first year. He noted that the number would change every year. He cautioned that it should not be looked at as a termination liability, but self-funding and paying it out over a longer period of time allowed the use of the higher rate of return.

ATTORNEY FLOYD clarified that putting \$377,002 in the Plan today, did not mean the contributions would no longer be needed.

DIRECTOR BEAZLEY asked whether an Actuarial Study could project out several years what the estimated contribution would be.

MR. LITTLE agreed it could be done to just increase with interest to the following year.

DIRECTOR BEAZLEY said that she could ask the Commission based on the Actuary Study with a couple of years projection.

MS. CHIN-KIDD asked whether there was a big difference in price to do the Actuarial Study more frequently.

MR. LITTLE said no because it was the same amount of work to call in all of the data and run the model.

**The motion carried by the following vote:**

**Yes:** 6 - Chair Wilbur, Vice Chair Simone, Secretary Chin-Kidd, Trustee Suarez, Trustee Sudman and Trustee Weinrub

**Absent:** 1 - Trustee Sitman

MR. LITTLE said that if the Board needed to look at any changes, everything was in the system now so they should let him know.

CITY MANAGER SMITH said adjustment could be made in time for September Budget adoption. He verified that the check received on July 1st would remain at \$325,000.

CHAIR WILBUR noted that last year \$325,000 was received from the City on July 1st. He stated that based on Mr. Nickler's recommendations, he would deposit the check and write Morgan Stanley a check.

MIKE NICKLER, Morgan Stanley, gave an overview of the past and current record of the Fund. He noted that a couple of changes were recommended with the Money Managers. He said that most of the Money Managers were doing their job and were outperforming their respective index long term. He added that the Fund had a diversified equity portfolio for growth not income; however, the Fund was not close to the SNP over the last 3 to 5 year period. He stated that the opinion given was not to diversify; however, he did not want to do that. He noted that the SNP was only 43 percent of the money invested and the rest of the money was diversified across the board. He explained that it was prudent but had not helped to be diversified, and that the returns were aggressive with large cap growth. He said that the last 3 to 5 years were bad; however, value was outperforming growth, alternatives would pick up and international would improve with merging markets. He questioned whether the Fund should be trying to beat the SNP.

ATTORNEY MARK FLOYD, Mierzwa & Floyd, PA, said that trying to beat the SNP was unrealistic, and he felt that the Fund should be blended.

MR. NICKLER noted that the current portfolio was 43 percent large cap growth and value and the SNP was large cap equities.

CHAIR WILBUR felt that due to the prior conversation from the Actuary, the City would not be giving the Fund 1 percent of payroll, which was fair; therefore, he felt that the portfolio should be kept more conservative to remain safe.

ATTORNEY FLOYD said that the portfolio needed to hit the 7 percent return as stated by the Actuary; therefore, the portfolio could not be that conservative.

MR. NICKLER felt that bonds would give a negative rate of return, but the current portfolio provided a chance to make money.

ATTORNEY FLOYD suggested using Index Funds as they were the funds that did the best and Money Managers would not have to be paid.

MR. NICKLER mentioned making a change to the portfolio with regard to Cambiar and Systematic. He suggested taking money from Cambiar who outperformed and putting it with Systematic who consistently outperformed. He gave an overview of the portfolio as follows:

- SYSTEMATIC – small mid value manager and did a good job
- ALTERNATIVES – seeing improvement this year
- INVESCO – large value manager that did horrible the last 12 months, but was great long term
- DELAWARE – small mid growth that did good
- TRADEWINDS – was well respected but was behind
- MFS – did a good job long and short term

- *PRUDENTIAL GENESON – did okay long term but had a rough year short term*
- *LAZAR – merging market manager that was doing well year-to-date*
- *CAMBIAR – underperformed and money should be taken from Cambiar and put into Systematic*
- *TCW – had a rough quarter but did better now so should continue to monitor*

**A motion was made by Secretary Chin-Kidd, seconded by Trustee Sudman, to authorize Mike Nickler, Morgan Stanley, to move the money from Cambiar to Systematic. The motion carried by the following vote:**

**Yes:** 6 - Chair Wilbur, Vice Chair Simone, Secretary Chin-Kidd, Trustee Suarez, Trustee Sudman and Trustee Weinrub

**Absent:** 1 - Trustee Sitman

*MR. NICKLER noted that the existing portfolio was 20 percent large growth with 23 percent large value and gave the existing breakdown as follows:*

- *11.5 percent small mid value*
- *11.5 percent small mid growth*
- *22.5 international*
- *12 percent alternatives*

*MR. NICKLER gave the following recommendations to overweight value versus growth for the City's check of \$325,000:*

- *Add 12 percent to Systematic*
- *Add 12 percent to Alternatives – Gold, Silver and real estate*
- *Add 13 percent to Invesco*
- *Add 10 percent to Delaware*
- *Add 11 percent to Tradewinds*
- *Add 10 percent to MFS*
- *Add 12 percent to Prudential Geneson*
- *Add 12 percent to Emerging market*
- *Add 8 percent to TCW*

**A motion was made by Trustee Weinrub, seconded by Vice Chair Simone, to approve Mike Nickler's recommendation with a quarterly report being provided on Invesco and TCW with the possibility of adding a new Manager.**

*MR. NICKLER stated that the next quarterly report was in October at which time he will provide an additional printout of TCW to show the investments.*

**The motion carried by the following vote:**

**Yes:** 6 - Chair Wilbur, Vice Chair Simone, Secretary Chin-Kidd, Trustee Suarez, Trustee Sudman and Trustee Weinrub

**Absent:** 1 - Trustee Sitman

*MR. NICKLER mentioned Attorney Floyd's prior suggestion for Index Funds, which were*



*cheaper with lower expenses due to not having to pay the Money Managers; however, he personally felt that the plans he used were justified.*

*ATTORNEY FLOYD responded with information about why he liked index funds.*

#### 4) INVOICES

##### A. [ID 2016-378](#) MOTION TO APPROVE INVOICE(S)

**A motion was made by Trustee Weinrub, seconded by Secretary Chin-Kidd, to approve payment of Attorney invoice in the amount of \$144.00. The motion carried by the following vote:**

**Yes:** 6 - Chair Wilbur, Vice Chair Simone, Secretary Chin-Kidd, Trustee Suarez, Trustee Sudman and Trustee Weinrub

**Absent:** 1 - Trustee Sitman

#### 5) REPORT FROM ATTORNEY

*ATTORNEY MARK FLOYD, Mierzwa & Floyd, PA, stated that more Actuary evaluations were needed if losing the buffer from the City's contribution. He added that the Trustees needed to pay attention to the investments. He noted that the Actuary fee of \$8,000 would have to be increased as well.*

#### 6) REPORT FROM TRUSTEES

*VICE CHAIR SIMONE asked about the number of active employees versus participating employees.*

*CHAIR WILBUR replied that 241 active employees were still actively working in the City and 270 employees were participating in the Plan and were eligible, but had not started collecting from the Plan.*

*ATTORNEY MARK FLOYD, Mierzwa & Floyd, PA, noted that the Plan operated like a life insurance policy in that the beneficiary had to make the claim when the policy holder was deceased. He said that he did not know how many of the 241 actively working employees were eligible to receive a benefit.*

*MS. CHIN-KIDD felt it was the opposite with 271 currently working minus the 30 who were eligible to collect a benefit now would leave 241.*

*ATTORNEY FLOYD explained that Ms. Chin-Kidd misunderstood and that the 30 additional were those people who were separated from service but were not yet eligible to collect.*

*CHAIR WILBUR agreed with the Attorney.*

*ATTORNEY FLOYD clarified that the contribution was based on 241 people and the 30 additional were those people who were separated from service but were not yet eligible to collect. He said that when they qualified, they would be eligible to collect the benefit from the Fund, which was why they were kept in the active participant pool.*

*VICE CHAIR SIMONE questioned the amount of people currently being paid.*

ATTORNEY FLOYD stated that checks were being paid to 136 people as of June. He noted that the 136 could be increased by 271, which would be the maximum number.

VICE CHAIR SIMONE said that following the Attorney's prior comments, she was not comfortable with what Mike Nickler, Morgan Stanley, was doing for the Fund.

MR. WEINRUB felt that Mr. Nickler did a good job overall, and that there was no way to guess what Money Managers were doing.

ATTORNEY FLOYD noted that he only mentioned the Index Funds because it would be a savings. He stated that Mr. Nickler's report was based on gross returns, but his concern was with regard to the net return, which was 2.9 and not good and was the lowest of any of the Funds he represented.

CHAIR WILBUR stated that when the funds were received from the City, \$13,000 for the Actuary and \$8,000 for next year's expenses needs to be held. He said that he would make sure to keep \$21,000 to \$22,000 in the checking account. He noted that the current balance was approximately \$12,000.

## 7) OTHER BUSINESS continued

### B. [ID 2016-383](#) DISCUSSION AND POSSIBLE ACTION - DEATH BENEFIT

CHAIR WILBUR stated that Martin E. Orlando passed away.

**A motion was made by Trustee Weinrub, seconded by Secretary Chin-Kidd, to approve the death benefit for Martin E. Orlando pending receipt of the Death Certificate, based on the guidelines in the Plan Document. The motion carried by the following vote:**

**Yes:** 6 - Chair Wilbur, Vice Chair Simone, Secretary Chin-Kidd, Trustee Suarez, Trustee Sudman and Trustee Weinrub

**Absent:** 1 - Trustee Sitman

## 8) SCHEDULE NEXT MEETING

CHAIR WILBUR stated that the next scheduled meeting was on November 17, 2016 at 2:30 PM.

## ADJOURNMENT

There being no further business, the meeting adjourned at 4:17 PM.

Respectfully submitted,

Transcribed by Carol DiLorenzo

\_\_\_\_\_  
Jackie Chin-Kidd, Secretary

Date: \_\_\_\_\_